

Ms. Elizabeth Robertson, Administrator
Mariner Health Care of Sumter - East
Post Office Box 1526
Sumter, South Carolina 29151

Re: AC# 3-MAE-J3 – Mariner Health Care of Sumter - East

Dear Ms. Robertson:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1992 through September 30, 1993. That report was used to set the rate covering the contract periods beginning October 1, 1994.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

MARINER HEALTH CARE OF SUMTER - EAST

SUMTER, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1994
AC# 3-MAE-J3**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 23, 1997

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Mariner Health Care of Sumter – East, for the contract periods beginning October 1, 1994 and for the twelve month cost report period ended September 30, 1993, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Mariner Health Care of Sumter – East, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Mariner Health Care of Sumter - East dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 23, 1997

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MARINER HEALTH CARE OF SUMTER - EAST

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1994
AC# 3-MAE-J3

| | <u>10/01/94- 12/31/94</u> | <u>01/01/95- 09/30/95</u> |
|--------------------------------|-------------------------------|-------------------------------|
| Interim reimbursement rate (1) | \$72.03 | \$67.07 |
| Adjusted reimbursement rate | <u>70.10</u> | <u>65.14</u> |
| Decrease in reimbursement rate | \$ <u>1.93</u> | \$ <u>1.93</u> |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 15, 1997

MARINER HEALTH CARE OF SUMTER - EAST
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1994 Through December 31, 1994
AC# 3-MAE-J3

| | <u>Profit Incentive</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|--|-----------------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | \$2.83 | \$27.88 | \$40.40 | \$27.88 |
| Dietary | <u>.61</u> | <u>6.94</u> | <u>8.77</u> | <u>6.94</u> |
| Subtotal | <u>\$3.44</u> | 34.82 | 49.17 | 34.82 |
| Laundry/Housekeeping/Maint. | \$1.01 | 5.57 | 6.74 | 5.57 |
| Administration & Med. Rec. | <u>-</u> | <u>9.67</u> | <u>7.35</u> | <u>7.35</u> |
| Subtotal | <u>\$1.01</u> | 50.06 | <u>\$63.26</u> | 47.74 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.46 | | 2.46 |
| Special Services | | 4.45 | | 4.45 |
| Medical Supplies & Oxy. | | 3.20 | | 3.20 |
| Taxes and Insurance | | 1.35 | | 1.35 |
| Legal Fees | | <u>.06</u> | | <u>.06</u> |
| TOTAL | | <u>\$61.58</u> | | 59.26 |
| Inflation Factor (4.50%) | | | | 2.67 |
| Cost of Capital | | | | 6.12 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | 1.01 |
| Cost Incentive - For Gen. Serv. & Dietary | | | | 3.44 |
| Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing | | | | (2.95) |
| OTC/Nonlegend Drug Reimbursement | | | | .25 |
| Laundry Add-On | | | | <u>.30</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$70.10</u> |

MARINER HEALTH CARE OF SUMTER - EAST

Computation of Adjusted Reimbursement Rate

For the Contract Periods January 1, 1995 Through September 30, 1995
AC# 3-MAE-J3

| | <u>Profit Incentive</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|--|-----------------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | \$2.83 | \$27.44 | \$40.40 | \$27.44 |
| Dietary | <u>.61</u> | <u>6.94</u> | <u>8.77</u> | <u>6.94</u> |
| Subtotal | \$ <u>3.44</u> | 34.38 | 49.17 | 34.38 |
| Laundry/Housekeeping/Maint. | \$1.01 | 5.57 | 6.74 | 5.57 |
| Administration & Med. Rec. | <u>-</u> | <u>9.67</u> | <u>7.35</u> | <u>7.35</u> |
| Subtotal | \$ <u>1.01</u> | 49.62 | \$ <u>63.26</u> | 47.30 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.46 | | 2.46 |
| Special Services | | .04 | | .04 |
| Medical Supplies & Oxy. | | 3.31 | | 3.31 |
| Taxes and Insurance | | 1.35 | | 1.35 |
| Legal Fees | | <u>.06</u> | | <u>.06</u> |
| TOTAL | | \$ <u>56.84</u> | | 54.52 |
| Inflation Factor (4.50%) | | | | 2.45 |
| Cost of Capital | | | | 6.12 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | 1.01 |
| Cost Incentive - For Gen. Serv. & Dietary | | | | 3.44 |
| Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing | | | | (2.95) |
| OTC/Nonlegend Drug Reimbursement | | | | .25 |
| Laundry Add-On | | | | <u>.30</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | \$ <u>65.14</u> |

MARINER HEALTH CARE OF SUMTER - EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1993
For the Contract Period October 1, 1994 Through December 31, 1994
AC# 3-MAE-J3

| <u>EXPENSES</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | Adjusted <u>Totals</u> |
|-------------------------------------|--|-----------------------------|---|---------------------------|
| General Services | \$ 907,363 | \$ 404 (2) | \$ 9,662 (2) 18,902 (3) 1,525 (3) | \$ 877,678 |
| Dietary | 220,573 | 578 (2) | 2,696 (3) | 218,455 |
| Laundry | 32,655 | 169 (2) | 488 (3) | 32,336 |
| Housekeeping | 95,456 | - | 36 (2) 1,931 (3) | 93,489 |
| Maintenance | 50,110 | - | 77 (2) 682 (3) | 49,351 |
| Administration & Medical Records | 307,709 | 164 (2) | 267 (2) 2,623 (3) 614 (3) | 304,369 |
| Utilities | 77,582 | - | - | 77,582 |
| Special Services | 143,421 | - | 273 (2) 2,973 (3) | 140,175 |
| Medical Supplies & Oxygen | 101,113 | - | 366 (3) | 100,747 |
| Taxes & Insurance | 42,397 | - | - | 42,397 |
| Legal Fees | 1,944 | - | - | 1,944 |

MARINER HEALTH CARE OF SUMTER - EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1993
For the Contract Period October 1, 1994 Through December 31, 1994
AC# 3-MAE-J3

| <u>EXPENSES</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments | | <u>Adjusted Totals</u> |
|-----------------------------|--|--|-------------------|----------------------------|
| | | <u>Debit</u> | <u>Credit</u> | |
| Cost of Capital | <u>213,170</u> | <u>5,000</u> (4) | <u>25,493</u> (1) | <u>192,677</u> |
| Subtotal | 2,193,493 | 6,315 | 68,608 | 2,131,200 |
| Ancillary | 59,711 | - | - | 59,711 |
| Non-Allowable | <u>183,946</u> | <u>25,493</u> (1) <u>32,800</u> (3) | <u>5,000</u> (4) | <u>237,239</u> |
| Total Operating Expenses | <u>\$2,437,150</u> | <u>\$64,608</u> | <u>\$73,608</u> | <u>\$2,428,150</u> |
| TOTAL PATIENT DAYS | <u>*31,478</u> | <u>-</u> | <u>-</u> | <u>31,478</u> |

*Adjusted to 98% occupancy

TOTAL BEDS 88

MARINER HEALTH CARE OF SUMTER - EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1993
For the Contract Periods January 1, 1995 Through September 30, 1995
AC# 3-MAE-J3

| <u>EXPENSES</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | Adjusted <u>Totals</u> |
|-------------------------------------|--|-----------------------------|---|---------------------------|
| General Services | \$ 893,566 | \$ 404 (2) | \$ 9,662 (2) 18,902 (3) 1,525 (3) | \$ 863,881 |
| Dietary | 220,573 | 578 (2) | 2,696 (3) | 218,455 |
| Laundry | 32,655 | 169 (2) | 488 (3) | 32,336 |
| Housekeeping | 95,456 | - | 36 (2) 1,931 (3) | 93,489 |
| Maintenance | 50,110 | - | 77 (2) 682 (3) | 49,351 |
| Administration & Medical Records | 307,709 | 164 (2) | 267 (2) 2,623 (3) 614 (3) | 304,369 |
| Utilities | 77,582 | - | - | 77,582 |
| Special Services | 4,490 | - | 273 (2) 2,973 (3) | 1,244 |
| Medical Supplies & Oxygen | 104,417 | - | 366 (3) | 104,051 |
| Taxes & Insurance | 42,397 | - | - | 42,397 |
| Legal Fees | 1,944 | - | - | 1,944 |

MARINER HEALTH CARE OF SUMTER - EAST

Summary of Costs and Total Patient Days

For the Cost Report Period Ended September 30, 1993

For the Contract Periods January 1, 1995 Through September 30, 1995

AC# 3-MAE-J3

| <u>EXPENSES</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments | | <u>Adjusted Totals</u> |
|-----------------------------|--|--|-------------------|----------------------------|
| | | <u>Debit</u> | <u>Credit</u> | |
| Cost of Capital | <u>213,170</u> | <u>5,000</u> (4) | <u>25,493</u> (1) | <u>192,677</u> |
| Subtotal | 2,044,069 | 6,315 | 68,608 | 1,981,776 |
| Ancillary | 59,711 | - | - | 59,711 |
| Non-Allowable | <u>333,370</u> | <u>25,493</u> (1) <u>32,800</u> (3) | <u>5,000</u> (4) | <u>386,663</u> |
| Total Operating Expenses | <u>\$2,437,150</u> | <u>\$64,608</u> | <u>\$73,608</u> | <u>\$2,428,150</u> |
| TOTAL PATIENT DAYS | <u>*31,478</u> | <u>-</u> | <u>-</u> | <u>31,478</u> |

*Adjusted to 98% occupancy

TOTAL BEDS 88

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 1993
AC# 3-MAE-J3

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|--------------|---------------|
| 1 | Other Equity | \$555,484 | |
| | Nonallowable | 25,493 | |
| | Fixed Assets | | \$ 1,385 |
| | Accumulated Depreciation | | 554,099 |
| | Cost of Capital - Depreciation Expense | | 25,493 |
| | To adjust fixed assets and related depreciation expense to allowable HIM-15-1, Section 100 | | |
| 2 | Accrued Vacation | 9,000 | |
| | Restorative | 404 | |
| | Dietary | 578 | |
| | Laundry | 169 | |
| | Medical Records | 164 | |
| | Nursing | | 9,662 |
| | Housekeeping | | 36 |
| | Maintenance | | 77 |
| | Administration | | 267 |
| | Special Services | | 273 |
| | To disallow undocumented accrued vacation expense HIM-15-1, Section 2304 | | |
| 3 | Nonallowable | 32,800 | |
| | Nursing | | 18,902 |
| | Restorative | | 1,525 |
| | Dietary | | 2,696 |
| | Laundry | | 488 |
| | Housekeeping | | 1,931 |
| | Maintenance | | 682 |
| | Administration | | 2,623 |
| | Medical Records | | 614 |
| | Medical Supplies | | 366 |
| | Special Services | | 2,973 |
| | To adjust fringe benefits to allowable HIM-15-1, Sections 2144 and 2304 | | |

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 1993
AC# 3-MAE-J3

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|------------------|------------------|
| 4 | Cost of Capital Nonallowable | 5,000 | 5,000 |
| | To adjust cost of capital to allowable State Plan, Attachment 4.19D | | |
| | | <hr/> | <hr/> |
| | TOTAL ADJUSTMENTS | <u>\$629,092</u> | <u>\$629,092</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MARINER HEALTH CARE OF SUMTER - EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1993
AC# 3-MAE-J3

| | |
|--|-----------------------|
| Original Asset Cost (Per Bed) | \$ 15,618 |
| Inflation Adjustment | <u>1.8981</u> |
| Deemed Asset Value (Per Bed) | 29,644 |
| Number of Beds | <u>88</u> |
| Deemed Asset Value | 2,608,672 |
| Improvements Since 1981 | 283,032 |
| Accumulated Depreciation at 9/30/93 | <u>(1,048,869)</u> |
| Deemed Depreciated Value | 1,842,835 |
| Market Rate of Return | <u>0.075</u> |
| Total Annual Return | 138,213 |
| Return Applicable to Non-Reimbursable Cost Centers | - |
| Allocation of Rent and Interest to Non-Reimbursable Cost Centers | <u>-</u> |
| Allowable Annual Return | 138,213 |
| Depreciation Expense | 54,653 |
| Amortization Expense | - |
| Capital Related Income Offsets | (189) |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>-</u> |
| Allowable Cost of Capital Expense | 192,677 |
| Total Patient Days (Minimum 97% Occupancy) | <u>31,478</u> |
| Cost of Capital Per Diem | \$ <u><u>6.12</u></u> |

MARINER HEALTH CARE OF SUMTER - EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1993
AC# 3-MAE-J3

| | |
|--|----------------|
| 6/30/89 Cost of Capital and Return on Equity | |
| Capital Per Diem Reimbursement | \$4.13 |
| Adjustment for Maximum Increase | <u>3.83</u> |
| Maximum Cost of Capital Per Diem | \$ <u>7.96</u> |
| Reimbursable Cost of Capital Per Diem | \$6.12 |
| Cost of Capital Per Diem | <u>6.12</u> |
| Cost of Capital Per Diem Limitation | \$ <u>-</u> |